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Performance Analysis of Scheduled Commercial Banks in India: A Study of Trends in Core Banking Growth Indicators Between 1951-52 to 2024-25

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ABSTRACT: *This study provides a comprehensive performance analysis of Scheduled Commercial Banks in India from 1951-52 to 2024-25, utilizing core banking growth indicators. Grounded in Financial Intermediation, Efficiency, and Stability theories, the research evaluates the dynamics of demand and time deposits, government security investments, and the bifurcated growth of food and non-food credit. Statistical analysis through Volatility Measures reveals that while non-food credit remains the most stable growth driver (CV: 36.42), food credit and other approved securities exhibit extreme policy-induced fluctuations. Furthermore, a structural break analysis indicates a significant shift in credit trajectories, with non-food credit transitioning from a low upward trend to a stabilized, albeit slightly declining, path in the post-reform era. The findings underscore the pivotal role of regulatory frameworks and macroeconomic shifts in shaping the Indian banking landscape over seven decades.*

KEYWORDS: Performance, demand deposits, time deposits, government securities, food credit, non-food credit, volatility.

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I. INTRODUCTION

Performance of banking sector can be analysed using various yardsticks of fundamental importance. One can gauge into core financial ratios like profit and loss, capital adequacy ratios, and even so-called Basil norms (Khatik. & Nag, 2015). Side by side with this, one can also look at core indicators and policy induced indicators like the growth of deposits both demand and time, banks' portfolio management especially investment pattern (Bodla & Verma, 2006). Notwithstanding the yardsticks that one uses for this exercise, it is obvious that sector specific dynamics and policy interventions always influence the performance of banking entities in any country (Mishkin, 2019). In this paper, our endeavour is to analyse the performance of Scheduled Commercial Banks in India using core indicators such as the growth in demand deposits, time deposits, investment in government securities, growth in food and non-food credit. To delve deep into the structural dynamics associated with food and non-food credit, the study also relies on structural break analysis of both food and non-food credit taking 1991 as a cut off point. Before, we delve into the core of this analysis, a word on the different yardsticks of analysis appears imperative.

II. PERFORMANCE INDICATORS: A THEORETICAL INTERPRETATION

The real question that one might raise here is: What is meant by 'Performance' in the banking sector? This question assumes theoretical and policy based practical importance as banks particularly banks in a developing economy like ours are supposed to be functioning beyond being mere business entities (Mancera, Volcker, & Godeaux, 1991). Apart from the very private purpose for which they are set up, banks while working in an environment designed and regulated by the central banks of respective countries are expected to abide by certain regularly postulations being made in the greater and general interest of the macroeconomy. Hence, it is obvious that while aligning with the intention of shareholders by attempting to maximise their wealth, banks must confirm to their performance with the larger interest of the economy by subserving the policy-based directions of the Central banks in line with the policy priorities of the governments. To put straightforward, any analysis of banking sector ought to reflect four things: the ability of banks to mobilize resources through deposits and other means, the ability to deploy funds effectively and safely, the ability to garner profits in sustainable manner, and the ability to manage the risk that stem from credit disbursal and deployment of funds over an array of financial assets covering government securities and equities, and to

mitigate the possible volatility in business affairs. It is true that there is hardly any 'one-size-fit-all-yardstick' to measure all these vital parameters of banking sector performance (Swamy, 2014). Hence, it is imperative that one must use a combination of yardsticks to delve into the dynamics of these.

Before we attempt to trace out the acceptable measures of performance analysis, it would be better to have glance at the theoretical underpinnings of these measures. We have mainly three theoretical approaches in this respect: the first is the Financial Intermediation Theory which upholds the principle that financial institutions are intermediaries between the ultimate savers and ultimate investors or, to put it other words, between the surplus groups and deficit groups (Allen & Santomero, 1997). This intermediation is made best by way of collecting deposits and turning them into loans and advances. Hence, the performance of banks must first be analysed on the basis of deposits that banks secure and the investments that they make. Secondly, the Efficiency Theory, which underlines the fact that for any business organization to thrive in a competitive environment efficiency matters a lot. Efficiency connotes many things, more importantly the efficacy of making profit enough to enhance the wealth of its shareholders. The ultimate test of efficiency is the profitable allocation of its resources over an array of investment opportunities. The third is the stability perspective which cements the argument that financial institutions must remain stable in uncertain periods as well. The biggest asset of financial institution is the faith that investors have in it. For this to remain intact, the financial institutions must exhibit a reasonable level of stability in its operations.

The study primarily relies on a secondary data analysis. The RBI Handbook of Statistics on Indian Economy data is used here. The volatility of different yardsticks of performance by scheduled commercial banks is analysed using the statistical tool of co-efficient of variation. In addition, a structural break analysis is done for food and non-food credit, being both considered as significant indicators of bank performance, taking 1991-92 as the break point.

III. ANALYSIS AND DISCUSSION

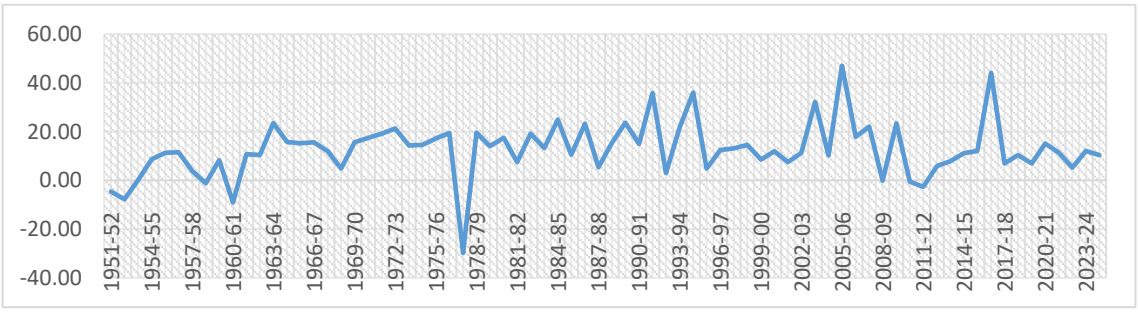
In the light of the above theoretical background, in the present study we use the following indicators of banking performance:

- Annual growth rate of demand deposits
- Annual growth rate of time deposits
- Growth rate of investment in government securities
- Growth rate of investment in other approved government securities
- Growth rate of Food Credit
- Growth rate of Non-Food Credit

Growth of Demand Deposits

The figure (Figure No.1) presents the annual growth rate of demand deposits of scheduled commercial banks in India over a long-time span. Demand deposits are highly liquid components of money supply and form a crucial part of narrow money (M1)**.** Their growth reflects not only banking sector performance but also broader macroeconomic conditions, monetary policy stance, and financial behaviour of households and firms. A close examination of the figure reveals that the growth rate of demand deposits is highly volatile, fluctuating between negative values (around -30%) and peaks exceeding 40–50%. This volatility itself is a key feature that needs interpretation. During the initial decades that is in 1950s to 1970s after independence, the growth of demand deposits shows moderate but somewhat unstable expansion. One of the most striking features in the graph is a sharp negative spike (around -30%) in the late 1970s. Such an extreme contraction indicates a structural or policy-related shock. Following the economic reforms of 1991, the growth rate becomes more dynamic, with sharp peaks (above 30–45%) and occasional steep declines.

Figure 1 Annual Growth Rate of Demand Deposits



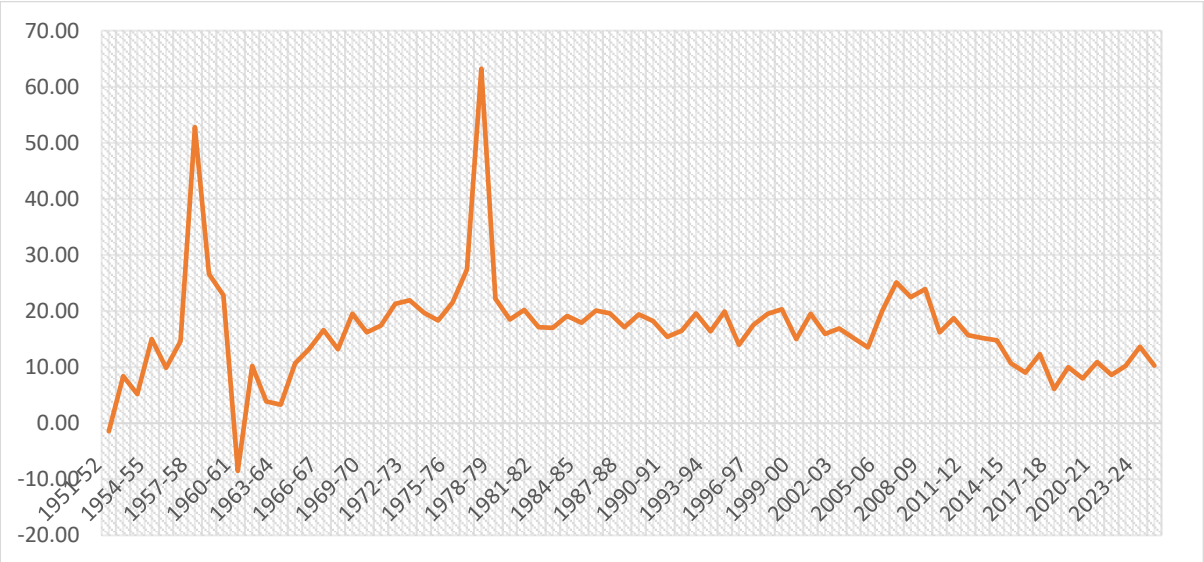
Growth Rate of Time Deposits

The figure (Figure No.2) illustrates the annual growth rate of time deposits in India over several decades, revealing a pattern of overall expansion accompanied by periodic fluctuations. Time deposits, being interest-bearing and less liquid than demand deposits, reflect the savings behaviour of households and the broader financial environment.

In the early decades (1950s–1960s), the growth rate was highly volatile, with sharp spikes—most notably in the late 1950s—and occasional declines. This instability can be attributed to the underdeveloped banking system, limited financial inclusion, and fluctuating income levels. As the banking sector expanded and institutional mechanisms improved, the 1970s witnessed relatively more stable and sustained growth, although a significant spike appears in the late 1970s, likely due to policy changes or shifts in deposit mobilization strategies. During the 1980s and 1990s, the growth rate of time deposits stabilized within a moderate range (roughly 15–25%), reflecting increased public confidence in banks, rising incomes, and financial deepening. The post-1991 reform period further strengthened deposit mobilization, although fluctuations persisted due to deregulation, interest rate changes, and macroeconomic conditions. From the 2000s onwards, the growth rate shows moderate but consistent behaviour, with occasional peaks linked to economic expansion and higher savings. However, in recent years, there is a slight moderation, indicating competition from alternative investment avenues and changing financial preferences.

Overall, the trend suggests that time deposits have become a stable and dominant component of bank deposits, reflecting long-term savings behaviour and financial maturity in the Indian economy.

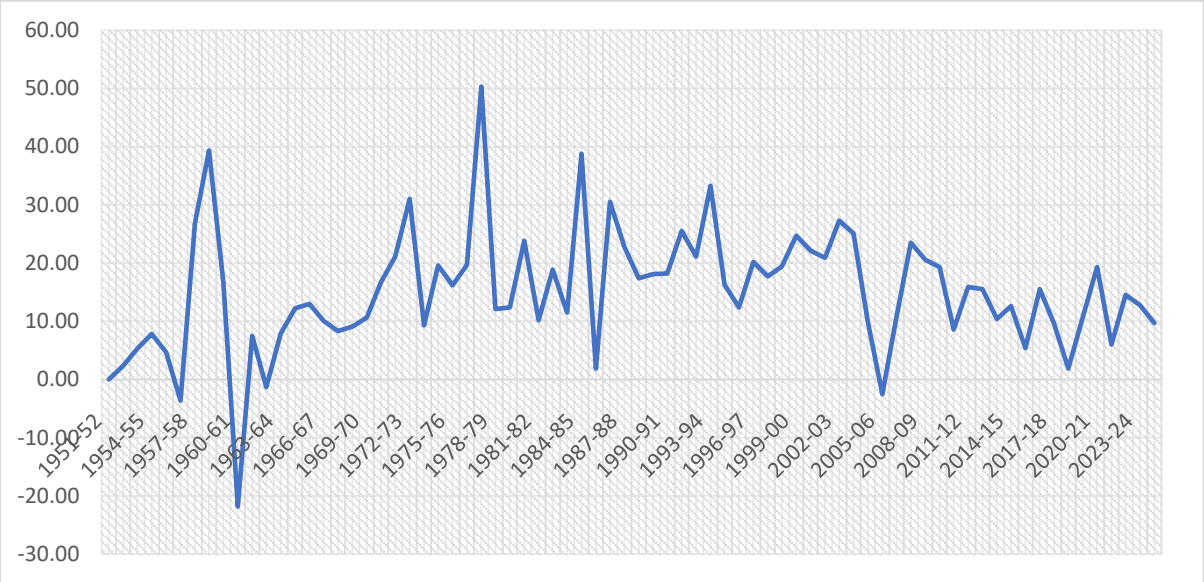
Figure 2 Annual Growth Rate of Time Deposits



Investment in Government Securities

The figure (Figure No.3) depicts the annual growth rate of scheduled commercial banks' investment in government securities in India over a long period. These investments are a key component of banks' statutory liquidity requirements and play a crucial role in financing government borrowing. The trend shows considerable volatility, especially in the earlier decades (1950s–1970s), with sharp positive spikes and occasional negative growth. The high peak in the late 1970s (around 50%) reflects a period of significant expansion, possibly driven by increased government borrowing and tighter regulatory requirements such as the Statutory Liquidity Ratio (SLR). Conversely, sharp declines indicate adjustments in portfolio allocation or changing liquidity conditions. During the 1980s and 1990s, the growth rate remains relatively high but somewhat more stable, typically ranging between 15% and 30%. This period corresponds with increased fiscal deficits and greater reliance on banks to absorb government debt. However, fluctuations persist due to interest rate changes and macroeconomic instability. In the post-reform period (after 1991), the growth rate shows moderate stabilization, though occasional dips and spikes continue. In recent years, the growth appears relatively subdued, reflecting diversification of bank investments and evolving monetary policy frameworks. Overall, the figure highlights the counter-cyclical and policy-driven nature of bank investments in government securities.

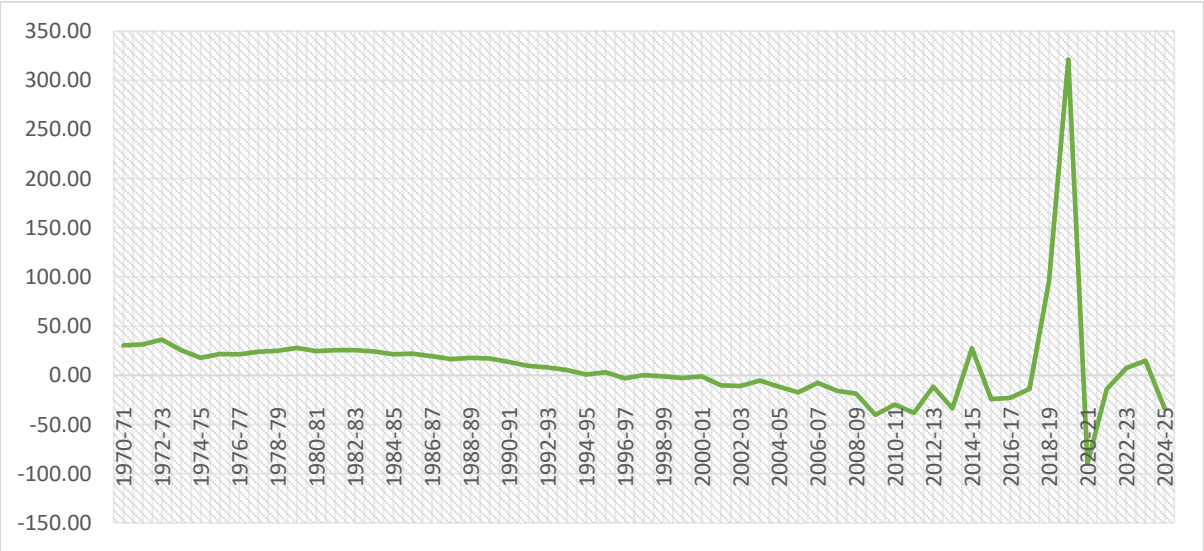
Figure 3 Investment in Government Securities



Investment in Other Approved Securities

The figure (Figure No.4) shows the annual growth rate of banks' investment in other approved securities, revealing a highly uneven and episodic pattern over time. In the earlier period (1970s–1980s), growth was relatively stable and positive, generally ranging between 15% and 30%, indicating a steady allocation of bank funds into these instruments alongside government securities. However, from the 1990s onwards, the trend shifts noticeably, with growth rates gradually declining and frequently turning negative, suggesting a reduced preference for such investments due to financial sector reforms, deregulation, and the emergence of more attractive and diversified investment avenues. The 2000s and early 2010s are marked by persistent volatility and negative growth, reflecting changing portfolio strategies of banks and evolving regulatory requirements. A striking feature is the extreme spike around 2018–19, followed by a sharp contraction, indicating an abnormal or one-off adjustment, possibly due to policy changes, reclassification, or sudden shifts in liquidity conditions. Overall, the pattern suggests that investments in other approved securities have become less stable and less significant over time, with banks increasingly reallocating their portfolios in response to market dynamics and regulatory transformations.

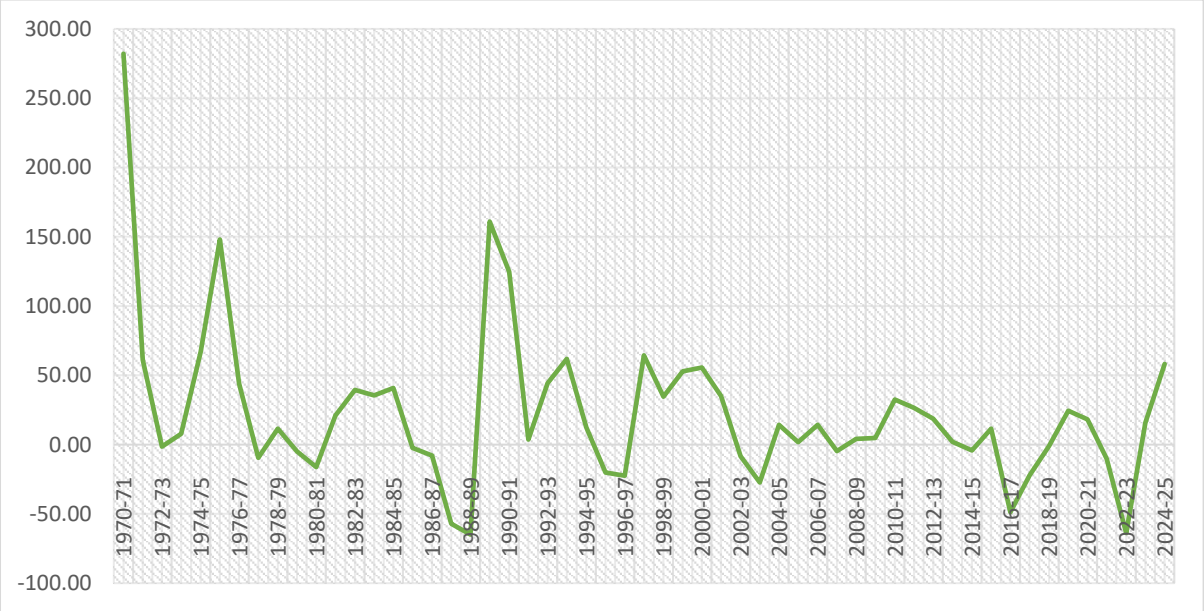
Figure 4 Investment in Other Approved Securities



Growth of Food Credit by Scheduled Commercial Banks

The figure depicting the growth of food credit by scheduled commercial banks in India reveals a pattern of extreme volatility and episodic spikes, indicating the highly policy-driven and seasonal nature of such lending (Figure No.5). In the early 1970s, there is an exceptionally high growth rate, followed by sharp fluctuations, reflecting the role of banks in financing food procurement operations, particularly by government agencies. The mid-1970s and late 1980s show notable surges, likely associated with increased procurement, buffer stock policies, and agricultural support measures. However, these peaks are often followed by steep declines or even negative growth, suggesting repayments, reduced procurement needs, or shifts in policy. From the 1990s onwards, although fluctuations persist, the magnitude of spikes becomes relatively moderated, indicating some stabilization alongside broader financial sector reforms. In the 2000s and 2010s, growth rates remain inconsistent, with alternating positive and negative trends, reflecting changing agricultural credit policies, food subsidy dynamics, and varying procurement levels. The recent period again shows sharp movements, underscoring the continued sensitivity of food credit to government intervention and agricultural cycles. Overall, the graph highlights that food credit is not a stable component of bank lending but is largely influenced by seasonality, policy shifts, and food management operations in the economy.

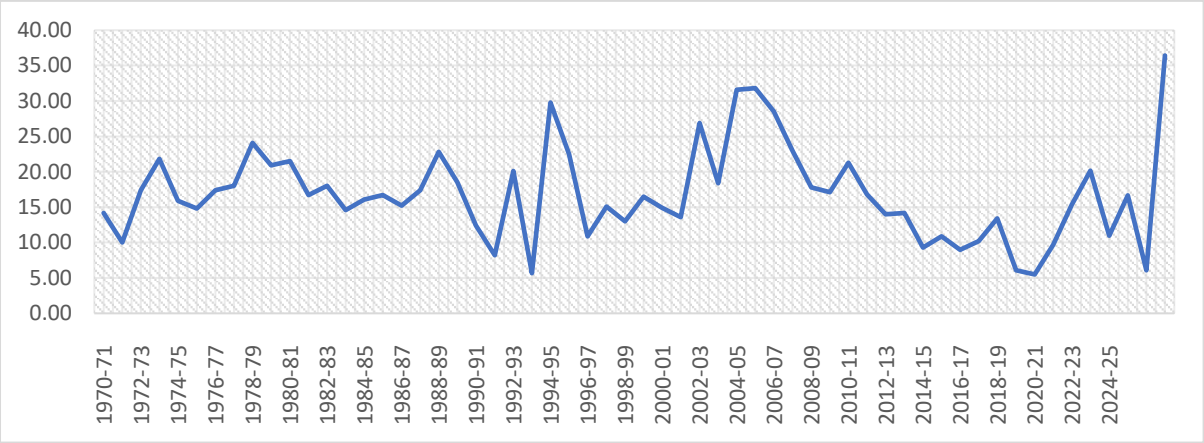
Figure 5 Food Credit



Growth of Non-Food Credit

The provided line chart illustrates the year-on-year growth rate of non-food credit by scheduled commercial banks (SCBs) in India from 1970-71 to 2024-25 (Figure No.6). Non-food credit, which includes loans to agriculture, industry, services, and personal segments, serves as a vital barometer for real economic demand. The data reflects significant historical volatility, with the growth rate typically fluctuating between 10% and 25%**.** Notable peaks occurred in the mid-1990s and during the 2004–2007 "boom" period, where growth exceeded 30% due to robust industrial expansion and easy financial conditions. Conversely, sharp declines are evident during economic shocks, such as the 2020–21 COVID-19 pandemic, where growth plummeted to a multi-decadal low of approximately 5.5%**.**

Figure 6 Non-Food Credit



IV. FINDINGS

Now, we attempt to present a summary picture of the volatility of different yardsticks of performance by scheduled commercial banks (Table No.1). Investments in Other Approved Securities exhibit the highest relative volatility with a CV of 521.71, despite a modest Mean (9.59). This suggests extreme fluctuations in this asset class. Food Credit follows with a CV of 244.05. This high volatility is expected, as food credit is strictly seasonal and tied to government procurement cycles, leading to large periodic swings. Non-food Credit is the most stable among the credit categories, with the lowest CV of 36.42. This indicates a steady and predictable growth pattern, which is essential for industrial and commercial planning. Total Bank Credit (CV 43.89) also shows relatively low volatility, benefiting from the stabilizing effect of non-food credit, which outweighs the fluctuations in food credit. Demand Deposits (CV 89.28) are significantly more volatile than Time Deposits (CV 55.86). This reflects the liquid nature of demand deposits, which are subject to frequent withdrawals, whereas time deposits provide a more stable capital base for banks. Investments in Government Securities (CV 69.39) show moderate volatility, likely influenced by changing interest rate regimes and liquidity management by the RBI.

Table 1 Volatility Measures

Volatility Measures	Demand Deposits	Time Deposits	Investments In Government Securities	Investments In Other Approved Securities	Food Credit	Non-food Credit	Bank Credit
Mean	12.64	16.57	15.22	9.59	22.90	16.67	15.32
SD	11.28	9.26	10.56	50.04	55.89	6.07	6.72
CV	89.28	55.86	69.39	521.71	244.05	36.42	43.89

Food-Credit and Non-Food Credit: Structural Break Analysis

Taking 1991-92 as the break point, we intend to do structural break analysis of food-credit and non-food credit which are a vital indicator of the performance of scheduled commercial banks in India. We do it for two period: 1970-71 to 1990-91 the Pre-reform Period and 1991-92 to 2024-25 as the post reform period.

We estimate separate trends:

$$Y_t = a + bt$$

Pre-1991 Food Credit= Food Credit $= 78.6 - 2.85t$

The Slope (b) is –2.85 and the intercept is 786. The slope shows this was a strong declining trend as far as the food credit is concerned.

Post-1991FoodCredit=$22.4 - 0.48t$
In the post 1991 period the slope has been declined to -0.48 which means that trend has still be declining but at relatively slow rate.
Pre-1991 Non-Food Credit $= 16.2 + 0.12t$
In the pre-1991 period the trend of non-food credit was upward but very low.
Post-1991Non-Food Credit $= 14.5 - 0.03t$
In the post 1991 period the trend of non-food credit has turned out to be slightly declining.

IV. CONCLUSION

The longitudinal analysis of Scheduled Commercial Banks in India reveals a sector that has evolved from an underdeveloped system into a sophisticated pillar of the macroeconomy. The study confirms that "performance" in the Indian context transcends mere profitability, encompassing the critical ability to mobilize resources and mitigate operational volatility. A primary finding of this research is the stark contrast in stability across different banking yardsticks. Non-food credit emerges as the most reliable indicator of real economic demand, characterized by the lowest relative volatility, which is essential for long-term industrial planning. In contrast, the high volatility observed in food credit and "other approved securities" highlights their sensitivity to seasonal agricultural cycles and shifting regulatory mandates. Furthermore, the transition of time deposits into a dominant and stable component of bank liabilities reflects a maturing financial habit among Indian households. The structural break analysis of 1991 serves as a definitive point of departure, marking the shift toward a more dynamic, reform-oriented banking environment. The post-reform period shows a gradual diversification of bank portfolios. Ultimately, the study concludes that for sustained growth, Indian SCBs must continue balancing the dual objectives of shareholder wealth maximization and the broader socio-economic priorities of the nation.

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